

paragraph (2)(B) not later than the date described in section 404(m)(2)(B).

"(B) an employee may elect to terminate participation in such arrangement at any time during the year, except that if an employee so terminates, the arrangement may provide that the employee may not elect to resume participation until the beginning of the next year, and

"(C) each employee eligible to participate may elect, during the 60-day period before the beginning of any year (and the 60-day period before the first day such employee is eligible to participate), to participate in the arrangement, or to modify the amounts subject to such arrangement.

for such year.
"(6) DEFINITIONS.—For purposes of this subsection—

"(A) COMPENSATION.—

"(i) IN GENERAL.—The term "compensation" means amounts described in paragraphs (3) and (8) of section 6051(a).

"(ii) SELF-EMPLOYED.—In the case of an employee described in subparagraph (B), the term "compensation" means net earnings from self-employment determined under section 1402(a) without regard to any contribution under this subsection.

"(B) EMPLOYEE.—The term "employee" includes an employee as defined in section 401(c)(1).

"(C) YEAR.—The term "year" means the calendar year

"(7) USE OF DESIGNATED FINANCIAL INSTITUTION.—A plan

shall not be treated as failing to satisfy the requirements of this subsection or any other provision of this title merely because the employer makes all contributions to the individual retirement accounts or annuities of a designated trustee or issuer. The preceding sentence shall not apply unless each plan participant is notified in writing (either separately or as part of the notice under subsection (1)(2)(C)) that the participant's balance may be transferred without cost or penalty to another individual account or annuity in accordance with subsection (d)(3)(G)."

(b) TAX TREATMENT OF SIMPLE RETIREMENT ACCOUNTS.

(1) DEDUCTIBILITY OF CONTRIBUTIONS BY EMPLOYEES.—

(A) Section 219(b) (relating to maximum amount of deduction) is amended by adding at the end the following new paragraph:

"(4) SPECIAL RULE FOR SIMPLE RETIREMENT ACCOUNTS.—

This section shall not apply with respect to any

amount contributed
uted to a simple retirement account established
under section
408(p)."

(B) Section 219(a)(5)(A) (defining active participant)
is amended by striking "or" at the end of clause (iv) and
by adding at the end the following new clause:

"(vi) any simple retirement account (within the
meaning of section 408(p)) or".

(2) DEDUCTIBILITY OF EMPLOYER CONTRIBUTIONS.—Section
404 (relating to deductions for contributions of an employer
to pension, etc. plans) is amended by adding at the end the
following new subsection:

"(m) SPECIAL RULES FOR SIMPLE RETIREMENT ACCOUNTS.—"